

THE TROUBLE WITH PAYDAY LOANS



Payday loans, also called check loans, are offered over the internet or through the mail as fast, easy cash.

It's an attractive offer. All borrowers need is a checking account and evidence they have a job.

For many borrowers, these short-term loans turn into a long-lasting and very expensive debt trap.

Payday lenders make a fortune by preying on consumers who have limited access to other forms of credit.

HOW PAYDAY LOANS WORK

Payday loan offers come from out-of-state lenders, because the amount of interest that can be charged by a New York lender is set by law. Cashing in on high interest rates -- and the borrowers inability to make payments -- is the payday loan sting.

Lenders offer high interest loans guaranteed by your paycheck. Say, for example, you receive an offer to borrow \$100 for two weeks. You might be asked to give the lender a personal check for \$115. That \$15 fee is the same as paying interest at an annual percentage rate (APR) of 391%. Since many of these loans are offered on-line, the loan is made electronically.

The lender holds the check until the next payday and then deposits it. You redeem the check by paying the \$115 in cash. Or you can pay another fee to extend the loan ("rollover") for another two weeks.

Eventually, rollover fees will be higher than the original loan amount.

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For more information email DCA at
paydayloans@dca.nyc.gov



PROTECT YOURSELF FROM DEBT TRAPS! SHOP AROUND...

Find the best deal you can. Always compare different lenders' terms and charges before you take a loan.

Lenders who make payday loans are required to disclose, in writing, the annual percentage rate and finance charges for the loan. If a lender does not offer this information, ask for it. If they refuse to provide it in writing, you can get help from the Federal Trade Commission (FTC) by calling **877-FTC-HELP**.

Look into a small loan from a credit union, an advance from your employer, or a loan from family or friends. Some local community-based organizations make small business loans to individuals.

A cash advance on a credit card is sometimes available. It may have a higher interest rate than other sources of funds, but it's a lot cheaper than a payday loan.

KEEP TRACK OF YOUR MONEY...

Build some savings and some credit -- even small deposits can help -- so you won't need to borrow for emergencies or unexpected expenses.

The fee that would be paid on a typical \$300 payday loan will earn you money if you keep it in a savings account for six months. Some credit unions and savings banks will let you open an account with as little as \$25.

Work out a debt repayment plan. Ask your employer, credit union or housing authority for no- or low-cost credit counseling programs.

If you decide you must use a payday loan, borrow the smallest amount you are sure you can pay back with your next paycheck.



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